The Global Debt Scam – Day of Reckoning?

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As the advanced economies appear to be stumbling inadvertently into stagflation and possibly worse, diversionary media tactics are rapidly being deployed. Voices are rising warning of the global debt crisis and how it is likely to push poor countries into tragic collapse.

WHAT, WHO, & HOW BIG IS THE PROBLEM?

Global debt is now claimed to exceed $300 Trillion, while the poor countries' debt continues to rise in percentage terms – The Poor are always the culprits.

It is all a matter of definition, you set it according to your understanding, objectives, or motives. We can make it a lot more alarming by theoretically adding the liabilities of the derivatives and futures markets which could be considered hypothetical debts should they be allowed to become due; then, global debts would be in the Zillions. Economists just love creating definitions, no matter how practical or impractical they are, or how narrow and rigid they become, and end up wagging the dog!

On a closer look, however, it transpires that the US$ 300 Trillion global debt includes the internal and external debts of all countries. In other words, it probably includes Aunt Jemima's debt to her local grocer. While this is important and helps understand how deep the world has fallen into the hole it has dug, it is probably of higher priority to address the External Debt of countries; debt owed to parties outside their borders. These are the debts that will immediately impact

countries' currency exchange rates, ability to import especially food and energy, and fund development. They are quicker to trigger inflation and disrupt economies and societies.

Accordingly, when we look at the Global External Debts, we are taken aback by their distribution. (*Bear in mind that the actual numbers are approximations as they cover different years as well as slightly differ from one compiler to another, however they all point in the same direction*):

GLOBAL EXTERNAL DEBTS

DEBTOR	**DEBT US$**	**% OF TOTAL**	
USA and close Allies	50,308,400,000,000	51.37%	*79.38%*
Europe	27,435,511,000,000	28.01%	
China	13,000,000,000,000	13.27%	
Russia & Belarus	528,000,000,000	0.54%	
Asia	3,547,343,000,000	3.62%	
Latin America	2,207,378,000,000	2.25%	
Africa	865,416,000,000	0.88%	
Other Tiny Countries	47,049,340,000	0.05%	
TOTAL GLOBAL DEBTS	**97,939,097,340,000**	**100.00%**	

https://en.wikipedia.org/wiki/

What is striking here is that approx. 80% of global external debt is owed by the advanced countries (the US, its close Allies, and Europe), while a mere 0.88% (US$ 866 Bill) is owed by Africa comprising 54 countries. And even then, more than half of the African debt is owed by just three countries.

As for Asia, it owes 3.62% (US$ 3.5 Trill) distributed among 42 countries with the top 4 countries owing half of it. Similarly, 29 Latin American countries owe just 2.25% (US$ 2.2 Trill) with the top three responsible for more than half.

Most financial data, including the World Bank and IMF, kick off with a display of debt as a percentage of GDP (a ratio) and relegate the actual nominal debt figures to links that are harder to find or access. This approach may be useful to assess the size and seriousness of the debt problem in an individual economy, but it is not the only tool. A country's ability to pay its debts over a period of time can also be affected by inflation, which could falsely paint a rosy shrinking debt-to-GDP picture and vice versa, at least in the short term. Also, a sudden contraction or bounce up of GDP could occur as a result of multiple causes such as wars, market collapses or spikes, and rebounds in economies after sharp falls such as the 'post covid' temporary activity. Hence, the actual debt numbers add an important aspect to any analysis.

Not surprisingly, the global Debt-to-GDP percentages/ratios tend to tally with the conclusions of the above table of actual numbers. The ratios of advanced nations and Europe are way, way higher than those of the poorer countries. In fact, quite a few of their ratios make Japan, with its famously excessive ratio, appear to be thrifty.

So, when the IMF Managing Director bemoans the dire outlook that is about to befall the poor starving nations because of the bloated global debt balloon, she should call a spade a spade and, instead, direct her laments toward the advanced nations. Make no mistake, the poor nations will suffer, but not necessarily much more than they are used to. It is the advanced nations that will experience something they haven't experienced since the end of the second world war – A taste of poverty!

HOW DID WE GET HERE?

The Covid pandemic is being blamed as the trigger to this debt bloating. But, bloating, as we gluttons know, starts way before you actually feel it. It goes back to the 2008-2009 great recession, nay, it goes much further back. It started when financial gimmicks took over common business sense and the term leveraged

growth became the main master tool for ambitious CEO's or government planners. Couple that with continuous moderate inflation, how could you go wrong? Or could you? What if the leveraging is not for real investment in business expansion and growth, but for ploys to enhance the market value of the enterprise? What happens when the market or business slows down or collapses?

This appetite for leverage developed in the West soon spread worldwide. The rest of the world was just coming out of colonization 'purdah' and was not streetwise enough when the 'suits' armed with an excel spreadsheet (originally with calculators) eagerly overloaded the peasants with loans regardless of their appropriateness in type and structure to what was really needed. And regardless of whether they could be repaid or not. All that mattered was to close the deal and collect the fees and commissions and walk away with a new feather in one's cap. The problem of repayment and collection was not theirs, nor was the duty to closely supervise the proper utilization of the loans as intended in the original loan applications.

After a while, and a lot of suffering, the unsophisticated borrowers got a bit wiser and a bit more careful. So did the lenders, who were by in large government or international organizations. But it didn't take long for the private investment banks and funds to figure out that there was a luscious gravy train awaiting them in the poorer countries, and like a starlings' murmuration, they swarmed in. Consequently, it is not surprising that approximately 60% of today's global debt is not government debt, but private. The 'suits' again made a killing in fees and commissions, and not unlike the 2008-2009 collapse, they washed their hands off the job of cleaning the mess they left behind. They dumped it into the laps of the IMF and the World Bank who are now discovering what a hot potato it really is.

When the fan gets splattered, everybody rushes to look for a fall guy to blame, and China fits the perfect scapegoat profile. It is rich and successful and has embarked on a historic worldwide project, the Belt & Road Initiative (BRI) that is envisaged to benefit the world, especially the neglected part of the world. And, to

speed up the implementation of the BRI, China began a few years ago to help poorer countries build their infrastructure (ports, airports, railroads, roads, dams, etc.) as well as help them develop tradeable businesses that could increase employment, exports, and incomes (mines, factories, etc.). This was done via closely supervised loans, the direct building of the infrastructure, or investing in the projects and ventures. Soon, China out loaned everyone else and, hence, became ripe for blaming for creating “debt traps” that would drown the poor countries.

The “debt trap” slander of China was summarily disproven and withdrawn as various knowledgeable authorities and parties confirmed no such evidence existed (The IMF, Williams & Mary College, etc.). In fact, China has not seized or confiscated any defaulting project it had loaned to. Instead, it has, in some cases written off the loan, but it usually deferred repayments and/or renegotiated the terms to its and the borrower’s mutual satisfaction, and most such projects’ progress continued unfettered.

WHAT ARE THE SOLUTIONS?

There are two debt problems. The first is the bigger one, the advanced countries’ debt that amounts to approx. 80% of the total, and then there is the smaller problem of the rest of the world, which in most cases is, comparatively, petty change.

And since the West is very worried about the poorer countries’ debt, I will try to address some of the possible solutions to the smaller debt. As for the bigger debt, it is too diverse and complex for a simple one-fit-all solution. The advanced countries will have to figure that out for themselves since, by definition, they are advanced, and hence knowledgeable enough. But they better do it soon.

As for the poorer countries, while diverse in structure and composition, their problems tend to be simpler and fairly similar. Basically, they all suffer from insufficient revenues to spend on their societies and on their development and,

of course, to service their loans and repay them. The main solutions here would be:

MEDIUM & LONG-TERM SOLUTIONS:

These actions are long overdue, and they are the direct responsibility of the individual governments if they ever expect to break out from the vicious debt traps they inherited from their ex-colonists. For once in their history, they have a choice, and they cannot be arm-twisted into accepting iniquitous terms or be threatened with abandonment to the hypothetical wolves. They now have other options, such as BRICS, New Development Bank, SCO, and others.

1) Stop unsupervised lending: Stop Lending for the sake of lending without specific objectives that are properly justified by diligent cost-benefit analysis. This applies to both the lender and the borrower.

2) Stop ineffectual Bridging loans: that don't reach a safe levee on the other bank. Temporary stopgap loans are usually frittered away. Ensure that the loans are sufficient to deliver positive results. (For both lender and borrower).

3) Pay a fair price for the borrowers' exports: Most of these countries are single resource economies and it is grossly unfair for foreigners to buy (through various means and tricks) their resources/raw material for pennies and then produce products that sell at prices many times higher, regardless of what presumed value-added has been injected into the final product. Help them diversify their revenue and help them produce the end products locally, as the Chinese are doing.

4) Pay a fair tax: End foreigners' tax evasion in the poorer countries via offshore tax havens, tax agreements, or nod-and-a-wink arrangements. They should pay a fair tax as they do, or are required to do, in their own countries.

5) Stop starving the world: Stop the new-fangled scientific as well as commercial ploys to change the agricultural make-up of countries. It seems ridiculous that Africa, a continent mostly made up of jungle and prairies is unable to feed itself, even in terms of basics, and is threatened with starvation if it doesn't import food at exorbitant prices.

IMMEDIATE & SHORT-TERM SOLUTIONS:

With the rising interest rates and food and energy costs, the money paid in interest and loan installments should be redirected towards a higher priority, internal necessities. I doubt the lenders will revert to "Gunboat Diplomacy" or a baseball bat against the knees, to collect their debts. The last time they did that was against Venezuela in 1902, but it is unlikely they would repeat this today and still smugly wear their civilized humane face expressions… or would they?

A) Stop interest payments: Stop as in cancel and not defer as was ignominiously done during the Covid pandemic for a short time. If the finances of the borrowing country are dire enough to justify it, then it should be treated somewhat like a 'Chapter 11' and freeze all interest payments and related litigation, but without any waiver of the country's sovereignty. Otherwise, the country has no option but to default with all the ensuing damages and losses to the lenders. A nation cannot starve its citizens, withhold medical care, halt necessary services, and ignore its essential development needs, just to please the lenders and their pocketbooks!

B) Demand loan write-offs: All lenders lend at a risk and accordingly charge higher interest rates to compensate for such risks. Nevertheless, they make a lot of profits overall. Many of the loans are unpayable and could shortly go into default unless dramatically reduced and deferred.

As Dr. Michael Hudson constantly reminds us: "A Debt that cannot be paid, will not be paid". Therefore, the lenders would certainly be better off by taking a

haircut on their loans; a ‘Bob Cut’ or even a ‘Crew Cut’, is a lot better than getting scalped!

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